

MEMORANDUM

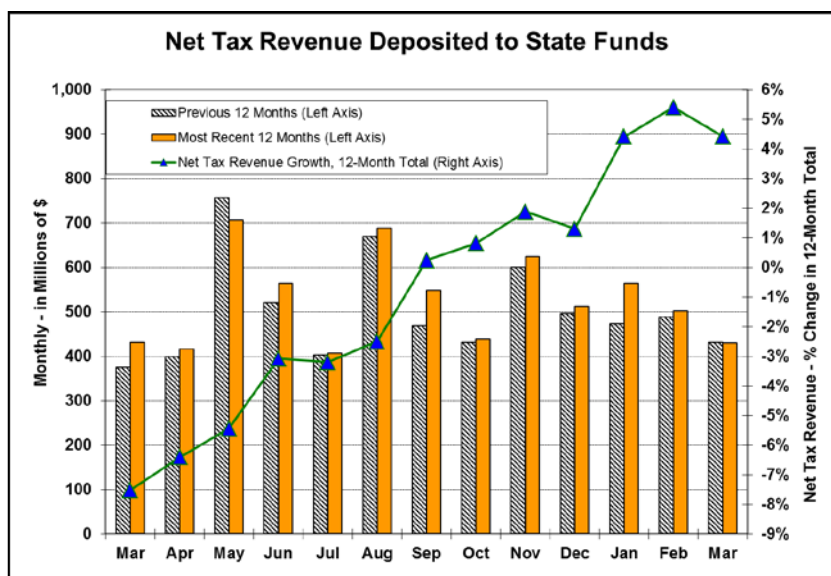
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: April 26, 2011

Twelve-month Total Net Tax Receipts Through March 31, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending March 2011 with comparisons to the previous twelve months. March 2010 to March 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

At \$429.6 million, March 2011 net tax revenue was 0.2% below March 2010. While sales/use tax growth reached almost 10.0% for the month, increased tax refunds issued this March caused declines in both individual and corporate income tax net deposits. Due to a deposit timing issue, gambling tax receipts jumped 23.7% and that increase will reverse in April. At \$6.403 billion, annual revenue is now back at a level first reached in November 2007 and the total is currently 5.2% below the November 2008 net revenue peak.

Month of March Comparison

March net tax receipts totaled \$429.6 million, a decrease of \$0.9 million (-0.2%) compared to March 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$3.5 million, -2.2%) – Increased tax refunds more than offset a strong 5.5% increase in individual income tax deposits.
- Sales/Use Tax (positive \$13.5 million, 9.6%)
 - Road Use Tax Fund use tax/fees for new registrations have now been positive in eleven of the past thirteen months, with November through March showing significant revenue growth.
 - Gross General Fund sales/use tax receipts increased \$8.8 million while refunds decreased \$4.4 million and school infrastructure refunds increased \$2.0 million.
- Corporate Income Tax (negative \$17.9 million, -47.0%) – Gross corporate income tax receipts decreased \$12.3 million while corporate refunds increased \$5.6 million.
- Fuel Tax (negative \$0.8 million, -2.4%) – A \$1.2 million increase in gross fuel tax deposits was more than offset by a \$2.0 million increase in fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$2.1 million, -11.1%)
- Gambling Tax (positive \$6.0 million, 23.7%) – Gambling revenue is generally deposited on Thursdays and March 2011 had five Thursdays. The five Thursday month occurred in April 2010, so the deposit timing will work in reverse in April.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending March 2011, net revenue from all taxes deposited to State funds totaled \$6.403 billion, an increase of \$270.9 million (4.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$135.8 million, 5.1%) – Individual income tax revenue annual growth was negative as recently as this past August.
- Sales/Use Tax (positive \$134.8 million, 6.4%) – Like individual income tax receipts, net sales/use tax revenue was negative year-over-year in August 2010.
- Corporate Income Tax (negative \$17.7 million, -7.7%) – At \$211.3 million, net corporate tax revenue is below the level experienced through much of the mid-to-late 1990s.



- Fuel Tax (positive \$0.7 million, 0.2%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 4.5% while taxable diesel sales increased 7.4%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 4.4% lower than the March 2008 peak sales level.
- Gambling Tax (positive \$0.4 million, 0.1%) – According to Racing and Gaming Commission statistics, seven of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending March 2011. The combined AGR growth for the 17 facilities was negative 0.04% over the period and annual AGR growth has not been positive since May 2009.
- Cigarette and Tobacco Tax (no change)
- Insurance Premium Tax (positive \$21.1 million, 26.9%) – The increase is likely the result of fewer redemptions of tax credits compared to last year.

Tax Spotlight – Insurance Premium Tax

The insurance premium tax (Iowa Code Chapters 432 and 432A) is imposed on the premiums of all insurance companies except fraternal beneficiary associations. The tax is administered by the Iowa Insurance Division, with the Iowa Department of Revenue serving as the depositing entity for the tax receipts.

The Iowa insurance premium tax dates back to at least 1851 (Chapter 464, 1851 Code of Iowa). The rate was established at 2.0%, with one-half of the revenue at that time devoted to county purposes and one-half to the State. The tax rate has been as high as 2.5%. Prior to legislation enacted during the 2002 Legislative Session (see SF 2318, Insurance Tax Rate Reduction Act), the insurance premium tax rate for most forms of insurance was 2.0%. As a result of that legislation, the tax rate was reduced in annual 0.25% increments until the rate reached 1.0%. For life and health insurance companies and associations and mutual health services corporations, the reduction started with policies issued in calendar year 2003 and reached 1.0% for 2006. For other insurance companies and associations (property and casualty), the reduction started with 2004 and reached 1.0 % for 2007.

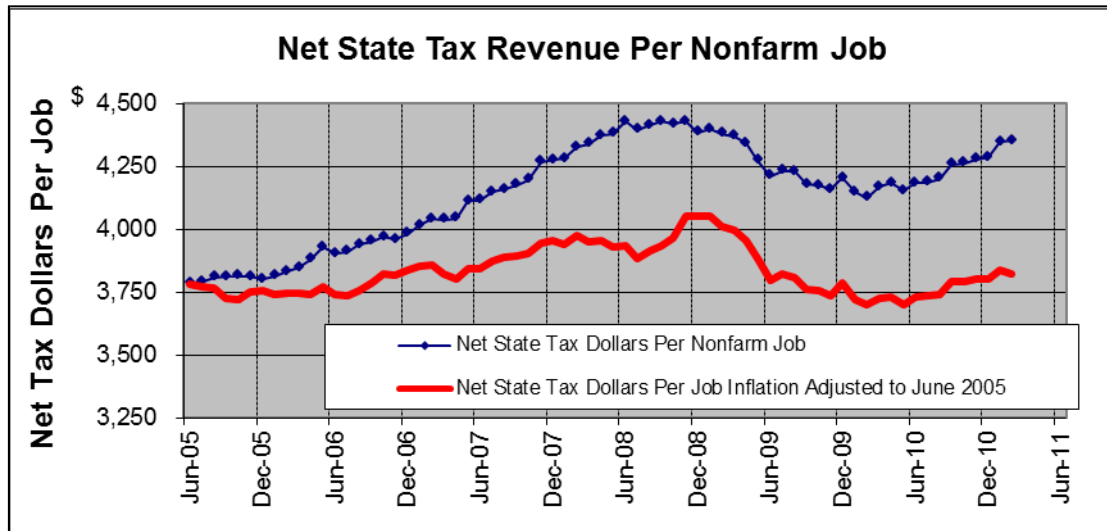
Insurance premium tax reports from all insurers are to be filed before March 1 of the year following the calendar year the tax is due. Prepayments are due in June and August and equal 50.0% of the company's previous year tax liability. Tax receipts from the insurance premium tax are deposited in the State General Fund.

Iowa, like most or perhaps all other states, provides for a retaliatory insurance premium tax against insurance companies not located in the State. The retaliatory tax requires non-Iowa companies to pay either the Iowa tax rate, or the tax rate an Iowa company would be subjected to in the company's home state, if that rate is higher than the Iowa rate.

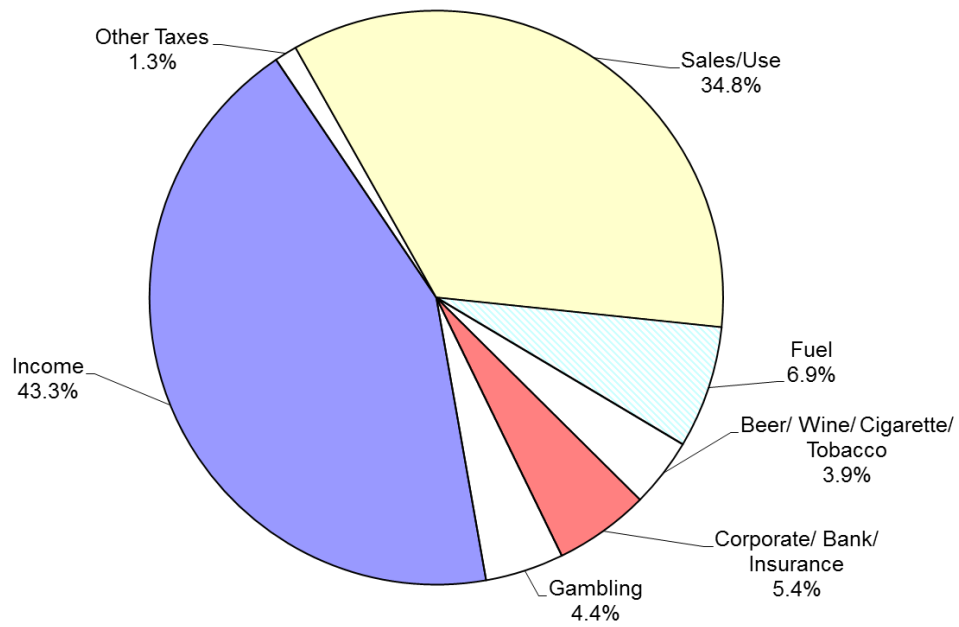
Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending February 2011 is 1,471,300 and net State tax receipts over the same twelve months totaled \$6.404 billion, or \$4,353 per nonfarm job. This is \$568 (15.0%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 13.8%. Therefore, tax revenue per job has exceeded the rate of inflation since July 2005 by about 0.2%

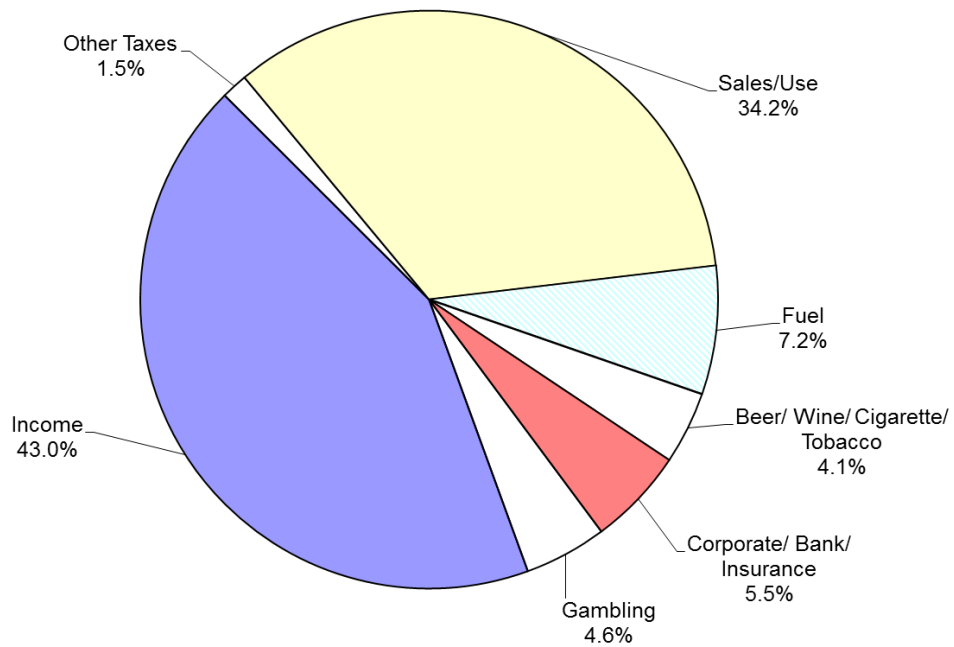
per year. The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



Net State Tax Revenue - Twelve Months Ending March 2011
Net Revenue = \$6.403 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending March 2010
Net Revenue = \$6.132 Billion
Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of March 2010	Month of March 2011	March \$ Change	March % Change
Banking	\$ 27.4	\$ 32.2	\$ 4.8	17.5%	\$ 2.1	\$ 3.1	\$ 1.0	47.6%
Beer & Wine	21.1	21.3	0.2	0.9%	1.4	1.6	0.2	14.3%
Cigarette & Tobacco	227.7	227.7	0.0	0.0%	18.9	16.8	- 2.1	-11.1%
Corporate Income	229.0	211.3	- 17.7	-7.7%	38.1	20.2	- 17.9	-47.0%
Fuel	440.6	441.3	0.7	0.2%	33.3	32.5	- 0.8	-2.4%
Gambling	283.3	283.7	0.4	0.1%	25.3	31.3	6.0	23.7%
Individual Income	2,639.2	2,775.0	135.8	5.1%	160.0	156.5	- 3.5	-2.2%
Inheritance	68.3	63.4	- 4.9	-7.2%	3.7	5.3	1.6	43.2%
Insurance	78.3	99.4	21.1	26.9%	5.4	7.1	1.7	31.5%
Other Taxes	8.9	4.1	- 4.8	-53.9%	1.4	0.8	- 0.6	-42.9%
Real Estate Transfer	13.3	13.8	0.5	3.8%	0.8	0.8	0.0	0.0%
Sales/Use	2,094.8	2,229.6	134.8	6.4%	140.1	153.6	13.5	9.6%
Total Net Taxes	\$ 6,131.9	\$ 6,402.8	\$ 270.9	4.4%	\$ 430.5	\$ 429.6	\$ - 0.9	-0.2%
Gross Tax & Refunds								
Gross Tax	\$ 7,401.5	\$ 7,651.5	\$ 250.0	3.4%	\$ 603.4	\$ 627.9	\$ 24.5	4.1%
Tax Refunds	\$ - 1,269.5	\$ - 1,248.6	\$ 20.9	-1.6%	\$ - 172.9	\$ - 198.4	\$ - 25.5	14.7%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,208.0	\$ 5,449.0	\$ 241.0	4.6%	\$ 353.6	\$ 345.6	\$ - 8.0	-2.3%
Road Use Tax Fund	\$ 688.6	\$ 719.4	\$ 30.8	4.5%	\$ 50.5	\$ 52.3	\$ 1.8	3.6%
Non-GF Gambling	\$ 215.7	\$ 215.8	\$ 0.1	0.0%	\$ 25.1	\$ 30.2	\$ 5.1	20.3%
Other State Funds	\$ 19.7	\$ 18.8	\$ - 0.9	-4.6%	\$ 1.4	\$ 1.4	\$ 0.0	0.0%
Local Option Taxes *	\$ 783.6	\$ 798.7	\$ 15.1	1.9%	\$ 74.2	\$ 83.0	\$ 8.8	11.9%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.